The Nation

THE WAYS OF MODERN INSURANCE.

In my early days it was the fashion with the agricultural community to concentrate their interest, so far as their means would allow, in large farms and large fields. This meant less hedges, and fewer gates and trees. It lessened the ratio of expense, and widened the area of operation. Of course, capital, organizing ability, and business experience were essentials to success. But the giants of those days were not, however, long lived. They were elbowed out by altered conditions, increased taxation, foreign competition, ruinous markets, forced sales. Then came the cry for freedom, allotments, and " everyone his own master." It was distinctly attractive at first, but in the parts of the country I know, the gloss has been worn off through incapacity, lack of capital, and in the attempt to serve two masters—himself and the other man, his employer. It has seemed to me that this latter was burning the candle at both ends—the hours of work were too long to do either party true and laudable service.

In the business of insurance there would appear to be no use for small potatoes. It is the day of large holdings and co-operative stores. The present-day system of insurance has so coddled up the public, which seems to be getting more indolent and apathetic year by year, that the man expects insurance either to be brought to his own door—for which luxury he has to pay—or if he does venture out, he looks to be able to buy all the various articles of contingent loss without personal effort and under one roof. In that *ménage* must be found, under one Board of Control, all the manifold departments of insurance, with desks here and there for subjects dealing with fire, life, annuities, accident, marine, burglary, employers' liability, sickness, third party indemnity, fidelity guarantee, property owners' indemnity, plate-glass, hailstorm, live stock, motor-car, and the latest achievement—loss of profits resulting from fire. This last concession to public demands was yielded with great reluctance, for in past generations it had been deemed inadvisable, in the interests of the Insurance Companies or even of the public itself, to cover this particular contingency as tending to make a loss by fire a desirable event. It was a safeguard which the insurance offices kept up their sleeve as some sort of protection against firebugs and fire waste. This is only by the way as indicating how competition compels the insurance trader to concede and concede in order that his competitors may have no loophole for small-arms attack.

Amalgamation, fusion, absorption—call it whatever euphemistic name you like—amongst insurance offices has of late years been the order of the day for the big ones, and the order of the night for the small. Let us look at the stubborn facts which present themselves. I will quote the most notable instances in alphabetical progression, adding the dates of digestion—or otherwise; this latter discreetly left for the inquiring mind. The start is good, but this is not " writ sarcastic," for I am in agreement with large holdings, for the reasons given in my agricultural parable. The Alliance Assurance Company secured, amongst others, the Royal Farmers in 1888, the Salop Fire in 1890, and in the same year the Shropshire and North Wales; the Imperial Fire and Life in 1902; the Alliance Marine in 1905; the Westminster Fire, the County Fire, and the Provident Life in 1906; the Law Fire in 1907, and the Economic Life in 1911. Several of these larger offices have been reconstituted under their old name, in order to safeguard their particular connections by a harmless and excusable deception. The Atlas Assurance Company buys the Manchester in 1904, and the Essex and Suffolk in 1911. The Commercial Union follows with the purchase of the Palatine in 1900, the West of England in 1894, the bi-centennial Hand-in-Hand in 1905, the Union in 1907, and the Ocean Accident in 1910—all of them very large transactions. The Law Union secures the Crown in 1892, and the Rock in 1909. The Liverpool and London takes over the Globe in 1864, the Central in 1907, the London and North British Plate Glass in 1910, and in the following year the Thames and Mersey Marine. The London and Lancashire Fire begins with the London and Southwark in 1879, the Millers and General in 1884, the London and Provincial in 1891, the General Fire in 1892, the Equitable Fire and Accident in 1901, the Scottish Employers' Liability in 1904, the Law Accident in 1907, and in the same year the Standard Marine. The North British and Mercantile takes over the Ocean Marine in 1907, and the Railways Passengers in 1910. The Norwich Union Fire absorbs the Norwich and London Accident in 1908, and the sister society, the Norwich Union Life, the Amicable in 1866, the Reliance Mutual in 1893, and the Scottish Imperial in 1906. The Phœnix purchases the Pelican and the British Empire Life in 1907, the Law Life in 1909, and the Union Marine in 1911. The Royal starts with the Brighton and Sussex Union in 1889, the Queen in 1891, the Midland Counties in 1892, the Lancashire Fire in 1901, and the Kent Fire in the same year; the British and Foreign Marine in 1909. The veteran Sun Fire Office—the only bi-centennial now—has been content with small morsels, if I may except the Patriotic Fire in 1905. Of course, this list is incomplete, and with intention, as the moral is quite sufficiently enforced. It will be noticed that there has been a lull of late years in large transactions, but chiefly for the reason that the Insurance Institutes all over the country,

now under the fatherly auspices of the Chartered Insurance Institute in London, have promoted a more serious study of the many ramifications of insurance, and the cry for capacity is not so pressing as in the days of the old giants. The Insurance and Actuarial Society of Glasgow, one of the pioneers of the movement, dating its establishment from 1881, thus tersely sets forth its objects:—(*a*) The promotion of the Study of the Principles of Fire and Life Assurance, and of Assurance against other contingencies. (*b*) The consideration of all subjects to which the Doctrine of Probabilities may be applied, as well as the best methods of collecting and applying Statistics. (*c*) The consideration of questions bearing on Social Science or Political Economy; and (*d*) The Formation of a Library of Professional Works for the use of Members. This process of essential education has spread, and led to the formation of Insurance Institutes in Aberdeen, Belfast, Birmingham, Brighton, Bristol, Cardiff, Dundee, Edinburgh, Glasgow, Dublin, Liverpool, London, Newcastle-upon-Tyne, Manchester, North Staffordshire, Northampton, and Bedford; Norwich, Nottingham, Perth, Sheffield and Yorkshire, and others are in course of establishment.

"'Tis education forms the common mind,
Just as the twig is bent, the tree's inclined."

CHARLES E. NOVERRE,
President of the Insurance Institute of London, 1911-12.

EDUCATIONAL ENDOWMENTS.

IT is often asked why the individual does not dispense with annual payments to a life office, and by investing each year for himself an equivalent sum, reap the same advantages that accrue by participating in the bonus of some big company. On paper, this looks a most seductive plan.

All the consequences of allowing premiums to fall into arrear would be obviated, and what the companies can do, the private investor, it is assumed, might achieve with like results. The answer, which completely demolishes this favorite contention, is that for one exceptional person who combines the determination to carry out a scheme to its conclusion with the requisite knowledge to invest small sums annually successfully, there are ten thousand whose effort would be marked by failure. Probably no one would dream of funding each year a sum to serve as a life assurance policy, for the simple reason that premature death would not bring a specified amount, but only the sum realized by the sale of the securities. Yet if we consider how many try to prepare for a similar contingency, namely, the education of children, either by spasmodic investment or by relying simply on the ability to meet the claims as they arise, it is manifest that the archaic notion has considerable prevalence in this sphere, while it has been practically killed in another. The contingency, however, is as real in the one case as the other. A parent insures his life against the consequences of early death to safeguard his dependants from penury. What he has in mind, of course, is that the education of his children will be provided for as much as their material needs. In these days an ill-educated child has as little chance of becoming independent as one that has been ill-nurtured, and the necessity for ample provision to meet the expenses of education is increasingly urgent. The difficulties in the way of giving children a fair start in life are not confined solely to the family deprived of the father by premature death. Many parents find that the earned income is sometimes insufficient to give the education that is desired, and where the parent survives and succeeds in this cherished object, more often than not it is accomplished at considerable sacrifice.

It is not without considerable reason that every life office offers to parents an easy and cheap method of placing the education of his child beyond the range of probability. Endowment policies for the provision of children's education are now quite the feature of the work of every important life insurance company. In many respects, it is the least selfish form of insurance, though prudential reasons certainly dominate.

Educational endowment is not difficult to understand. It may be reduced to the simple **A B C** form that the parent or guardian pays so many premiums to secure a fixed sum, with or without bonuses, at the date of maturity, when education fees or the heavy expenditure incidental to the start of a professional career have to be met. As the obligation has been contemplated in advance, and the burden is assumed by instalments, there is no striving or stinting to put a favored son through college; no lapse from the accustomed standard of comfort at home; no rigid self-denying ordinance respecting recreation or culture, which is often fraught with harmful results. As the interest insured is really that of the parent, his sudden death does not put an end to matured plans. The premiums may stop, but the policy survives. Of course, there are all sorts of variations of the main idea. It may be the child that is insured instead of the parent, or it may be the policy is on their joint lives. Each office offers special advantages; but it is customary that if the parent dies the premiums cease, while if the child dies before the due date, the premiums are returned in full. The Scottish Widows' include this plan, while the North British and Mercantile provide that if the child die during the currency of the endowment, the payment may continue or be commuted. Moreover, as a surrender value is usually attached, the premuims are not wholly lost if the policy is abandoned. As a mutual office, the Mutual Life Insurance Company, of New York, distributes its profits to its policy-holders,

and the bonus may be taken in cash each year to reduce the outlay, or to increase the benefits, and with the Mutual Life, at any rate, if the child dies the policy may be continued either for the benefit of another child or for the parents' estate, or for his own benefit. There is no end to the form endowment policies may take. They are flexible, and can be bent to suit any circumstance. If the parent once appreciates the need for an educational endowment, the insurance office will shape the policy to meet his purse and requirements.

Of course, there is no reason why the insurance should be effected solely for educational purposes. Indeed, the Prudential Assurance Company have framed a dowry scheme which has much to recommend it to fathers who wish to make provision for a daughter. It is possibly one of the best methods of providing a dowry, and this can be done on a liberal scale for a comparatively small premium. We will say that the child attains one year next birthday. Then for £13 9s. 2d. annually, a policy can be taken out for £500 and bonuses, to mature at the age of forty. If the child married at, say, the age of twenty, after twenty payments had been paid, a sum of £200 will be paid immediately, while the policy will remain intact, with bonuses accruing. When the policy matures, £690 will be forthcoming, while if the child dies after twenty-one, £500, plus bonuses, will be paid. That is the basis of the deferred endowment scheme, and to many fathers with favorite daughters this policy should prove irresistible in its attractions.

From this somewhat rapid survey it is manifest that the latest development of endowment insurance must have an increasing vogue. It appeals to the best instincts as well as to the prudential motives, and as in the event of the endowment not being required for the purpose for which it was originally intended, the policy, in the last resort, is a gilt-edged investment.

ANNUITIES AS INVESTMENTS.

If it were possible to take a census of how middle-class business men dispose of their surplus earnings, unquestionably life assurance, in one form or another, would top the list as the most popular investment. Many who are unable to lay by annually an appreciable sum for investment in stocks or shares regard the premium paid yearly to the office they have selected as a charge to be provided, which is almost as essential in character as rates and taxes. The reason is so obvious that it need not be labored. Whole life or endowment policies have made so wide an appeal to the community from the top to almost the bottom rung that every effort is made to provide against old age or early death. The obligations which the head of a family incurs are too imperious to be ignored. Provision must be made for the widow, even if death does not occur till late in life. The children have some claim on the parent, even if the initial stages have been left behind. But it must occur to many who enjoy the added pleasure which comes from the feeling of security that the payment of a lump sum to the estate at death or at a specified age does not meet all the circumstances. What if the prospect of life is a

long one? An endowment policy, falling in at sixty, will only occasion fresh arrangements, and make longevity an embarrassment. Suppose the premium-payer lives beyond the allotted span of three score years and ten? The assured amount and bonuses payable to the estate will be a windfall, from which the element of prudence has long since disappeared. The policy has outgrown its usefulness. It was meant to take the sting out of disaster. It is only an additional sum on which to pay duty.

Life assurance as generally recognized does not therefore meet every circumstance, yet the public who have assimilated so readily the advantages have not shown the same readiness to take out annuities, which, instead of being regarded, as they too frequently are, as alternatives to whole life or endowment schemes, or at best as supplementary forms, should be viewed as complementary to the original premium policy. The annuity policy has never been favored very largely, because it has involved the initial payment of a large sum. There are few who can consider the question early in life, and annuities late in life are supposed to appeal only to the spinster or bachelor, or others without near relations, who desire a fixed income to the end of the chapter. This attitude is changing, but what has prevailed has largely been due to the impression that the ordinary immediate annuity, which suited a limited number, was the only form of annuity available. If that were so, then the annuity would only be suitable to those who were compelled to live on capital. But its scope is wider.

Permutation is as rife in the annuity department as in other branches of assurance, and the variety of annuities now offered by life offices rule out many of the objections frequently made against the annuity as an investment. So much so, in fact, that an annuity may now be regarded as complementary to the ordinary premium policy. In this sphere the Canadian offices have specialized, and the high annual payments which they offer have attracted considerable attention. If we survey what three Canadian Companies—the Sun Life Assurance Company of Canada, Confederation Life Association, and the Canada Life Assurance Company—have done to make annuities more attractive, we obtain a very fair idea of how the public are catered for.

Instead of there being solely the ordinary annuity, whereby the payment of a sum ensures a fixed income during the lifetime of an annuitant, joint annuities covering the life of husband and wife, with an undiminished income to the survivor, are also well known; but the arrangement whereby a larger income is obtainable when both are alive, with a reduction to the survivor, is not without attractions. In these cases, the capital interest is extinguished immediately the survivor dies. That may have occurred prematurely, in which case the annuity is a costly investment, so that even the joint annuity has limited attractions. Another variant is offered which gets over this difficulty, that is, by guaranteeing the income for a fixed number of years. Let us take a twenty years' guaranteed annuity as an example, and we suppose the annuitant died after five years. Then the remaining fifteen years' income is a disposable legacy, to be enjoyed by whomsoever is appointed to receive it. This device removes annuities from the category of uncertainties, and gives a definite return to the investment with probabilities based on the expectation of life.

The Sun Life of Canada has contrived an ingenious plan whereby the annuity makes an appeal to a wider class, that is, by refunding the unexhausted portion of the capital at the death of the annuitant. If, for instance, £1,000 has been invested to procure an income of £70, and the annuitant died after only one payment, then the payment made would be deducted from the original £1,000, the sum of £930 being returned. But if the annuitant survives the period, which would by this process extinguish the capital, he still enjoys the fixed income.

Deferred annuities or old age pensions are included in the schemes of the Canada Life as well as the Sun Life of Canada, and are likely to be popular. Either by single payment or annual premium, the insurer secures for himself the specified sum as annual income commencing, say at fifty, fifty-five, or later. Thus, under the Canada Life scale the annuitant who wishes to secure £100 per annum, commencing at fifty, pays an annual premium of £32 16s. 1d. if he takes out the policy at twenty-five.

There is no end, of course, to the variations, for, given an instance where the insurable interest can be reduced to a basis which approximates to the tables of the offices, then the actuary will soon find a form of annuity to meet the contingency. This elasticity tends towards the annuity becoming more popular in the future, for it is no longer a question of outliving the period to make the investment profitable; the guaranteed income and deferred schemes making such questioning obsolete.

The intending purchaser of an annuity will probably expect some guidance as to the choice of an office. But nothing is at the same time so difficult and so invidious, for more than one point has to be considered, and long-established offices have much to recommend them. The high return which, say an ordinary annuity yields, makes it obvious that the annual income is exhausting the capital as well as securing the normal rate of interest. For £1,000, an annuitant, aged fifty, can secure £75 per annum for the remainder of his life. As an ordinary investment, it possesses considerable advantages, for in no other direction is it possible to obtain 7½ per cent. with certainty. It is only possible for the company to guarantee this payment if it funds the premiums not only at remunerative rates, but in securities of unquestioned stability. But it would be erroneous to infer that the lowest annual payment offered to the annuitant indicated the soundest company, or the highest payment could only be obtained from the employment of funds in directions not free from the element of risk. In the selection of an office, as in so much else, common-sense must prevail. The companies have built up large funds in the course of a long career, and though the return may seem large to the extent of being handsome, it should be borne in mind that, from the company's point of view, annuity policies are no more risky than the better known kinds of life insurance.